



An Introduction to Japan's Contemporary Youth Apparel Market

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Overview of Japan's Youth Apparel Market

Introduction

Japan is famous for being the land of eccentric fashion. While most may think of Harajuku Style fashion introduced by Gwen Stefani's Harajuku Girls, many trends dominate Japan's fashion scene.

In the mid 1990's young women started frequenting tanning salons to excessively tan themselves, and dressed themselves in neon pink and yellow adorned with white hair and excessive make-up. In the early 90's, young women dressed in *bodycon* style, standing for "body conscious clothing." These form-fitting dresses were paired with heels and feather fans when enjoying nightlife. Other fashion styles include *Mori-kei* (mythical emerging from forest attire), Gothic/Sweet/Punk Lolita styles, Rockabilly (those who dress like 50's rockers), *Dekora* (bright colored casual outfits with cute accessories), *gyaru* (girly glam style with short skirts, bright colors), and *Visual-Kei* (a style influenced by rock and punk with lots of leather and bulky silver accessories).

Anything can go in Japan in regards to fashion. Some note that years of wearing uniforms and strict rules for workplace attire invite individuals to express their creativity on weekends and after working hours. Many do so by enjoying creative fashion styles. Most students do not get to wear clothes of their choice until college, and therefore many refer to college as a "fashion debut."

Of course, a majority of the population does stick to fashion trends that are not so different from the rest of the world-- but with an extra edge of what the Japanese call *kawaii* or cute. Japan is a country where looking cute is considered appealing and looking sexy can be viewed as being promiscuous. Therefore, girly fashions with pink, ribbons, lace, pearls, and shiny beads are acceptable even for those in their late 30's to early 40's.

Does this market hold promise for U.S. brands? The answer is most certainly yes. Japanese teenagers have been quick to embrace casual and affordable brands such as Forever 21 and H&M. The surfer subculture enjoys Quicksilver, and a passion for denim has contributed to the popularity of J-Brand, purchased by Japan's Fast Retailing. A fascination with LA celebrities has supported Kitson as well. With the right strategy for targeting certain niche segments of the market, there can certainly be rewards.

Market Value

Japan is the third largest buyer of U.S.-made apparel products, following Canada and Mexico. Japan has been one of the world's largest apparel markets with a market value of \$95.8 billion.¹ In fact, Japan accounts for 23.5% of the Asia-Pacific apparel retail industry value as a whole.

Japanese consumers are well known for their unending thirst for designer labels and the latest fashions. According to the U.S. Bureau of Labor Statistics, Japanese consumers spend 4.2 % of their total expenditure on clothing products whereas U.S. consumers spend 4.0%.² With large number of consumers with high levels of disposable income for apparel products, Japan's apparel market can offer many opportunities to U.S. Firms.

Japan's Apparel Industry Value 2010-2014			
	\$billion	¥billion	%Growth
2010	90.6	9,588.3	
2011	88.8	9,404.1	-1.9%
2012	89.4	9,462.9	0.6%
2013	95.3	10,087.9	6.6%
2014	95.8	10,145.1	0.6%
Compound Average Growth Rate			1.4%

source:MarketLine

As shown above, the Japanese apparel retail industry grew by 0.6% in 2014 to reach a value of \$95.8 billion. The compound annual growth rate is 1.4% between 2010 and 2014 whereas China was 11.2% and Taiwan was 2.1% during the same period. Comparatively, Japan's apparel industry has experienced a slow growth over the last few years (except for 2013). This is partially due to March 2011 triple disaster in Japan. However, despite the slow growth rate, Japan still remains to be one of the world's largest apparel markets, and the market is expected to grow 1.6% on average between 2014-2019.³

Meanwhile, Japan's population is shrinking rapidly. According to the Health Ministry figures, Japan's birth rate has decreased significantly and rapidly in the past few years reaching a record drop in 2014 (9,000 fewer births compared to the previous year). If the birth rate continues to decrease, the child apparel market will suffer the consequences.

¹ MarketLine Industry Profile, "Apparel Retail in Japan", May 2015.

² U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, Volume 2, Number 16, March 2012.

³ MarketLine Industry Profile, "Apparel Retail in Japan", May 2015.

Japan apparel retail industry category segmentation, 2014		
Category	\$ billion	%
Womenswear	57.9	60.4%
Menswear	27.9	29.1%
Childrenswear	10.0	10.5%
Total	95.8	100%

source:MarketLine

The womenswear segment generated the most revenue in Japan's apparel market in 2014 at \$57.9 billion, which is 60.4% of the total industry value. The increasing number of women entering the workforce has been a key driver for womenswear in Japan. Marketing initiatives and products targeting working women has become a key strategy for apparel retailers. On the other hand, menswear segment contributed revenues of 29.1% of total industry revenue.

Market Distribution

Japan apparel retail industry distribution, 2014	
Channel	% Share
Clothing, foot/sportswear & accessories retailers	63.00%
Department stores	25.20%
Discount, variety & general merchandise retailers	5.80%
Hypermarket, supermarket & discounters	5.50%
Other	0.40%
Total	100%

source:MarketLine

The major form of Japan's apparel market's distribution channels is the clothing, foot/sportswear & accessories retailers accounting for 63% of the total industry value. In 2010, the high-end department stores experienced a significant drop in customer trafficking due to the change in consumer behavior in Japan where consumers started to reduce costs, and questioned their famous inclination to pay for quality and convenience. In other words, Japanese consumers started to "spend time to save money" rather than "spend money to save time". Concerned about this change in consumer behavior resulting in the vanishing shopper, the high-end department stores started to lease space within their stores to value-focused competitors such as casual-clothing chains like Uniqlo and Forever 21.⁴ At the present time, the majority of Japanese consumers remain to be cost-conscious more than ever due to increased tax and inflation caused by the devaluation of the yen.

In order to access Japan's distribution channels, one may establish a joint venture or go through a license tie-up with a Japanese firm. Doing so allows one to gain connections to different distribution channels and to also gain local market knowledge. On the other hand, establishing a wholly-owned subsidiary is very difficult because it makes it challenging to establish relationships with Japanese partners in a sector where there is a strong linkage among the domestic producers, wholesalers, and retailers. However, one can combine different models such

⁴ Brian Salsberg, "The new Japanese consumer", McKinsey Quarterly, March 2010.

as establishing a joint venture after gaining knowledge and connections through a license agreement, and then transition to a wholly-owned subsidiary. For example, in 1997, ZARA Japan was established as a joint venture of Inditex Group (Europe's largest apparel company) and Japan's BIGI Group. In 2005, Zara Japan became a wholly-owned subsidiary, and has been successfully expanding their business in Japan while playing a major role in Asia operations.

One of the few major holding firms for apparel distribution is Onward Holdings. Onward Holdings is a Japanese clothing manufacturer, that distributes clothing products of their own line as well as producing licensed garments for big name designer brands. They oversee more than 25 different clothing lines around the world under their licensing business. In fact, they own more than three dozen stores in Japan, and multiple more outside Japan such as China, South Korea, France, Italy, and Britain. They handle brands such as Calvin Klein, Jean Paul Gaultier, Paul Smith and more.⁵

Another major firm is Wacoal Holdings. Their mainstay business is manufacture and wholesale of intimate apparel (mainly women's foundation garments, lingerie, nightwear), outerwear, sportswear and other textile products, and direct sale of some products to customers. They also have many affiliates overseas, especially in the Asia Pacific region.⁶

As for department stores, Mitsukoshi, Takashimaya, Isetan, are some of the major department stores that are usually located in major cities in Japan. They are known for their top notch customer service, and clothing sections in these department stores usually take up about two to four floors of their eight to ten-story building. These department stores handle high quality products and mainly target working class women and consumers with middle to high incomes. Marui is another chain of Japanese department stores that features high end fashion brands and designers as well as boutiques. Parco and Lumine (a station building) are also major department stores that are fashion oriented, targeting a younger crowd.

Brands and Products that have succeeded

Examining brands that have succeeded help project a sense of what it takes to be successful in the Japanese market.

Free People

Urban Outfitters made an exclusive multi-year agreement with World Co., Ltd., one of Japan's major clothing company, in order to bring its Free People brand to Japan. The Free People is a very unique high-grade fashion brand that brings out a sense of femininity, delight and creativity based on a bohemian sensibility, targeting women in their 20s and 30s. The brand's popularity among celebrities and fashionistas brought Urban Outfitters the opportunity to sell their Free People brand at a number of select stores in Japan attracting fashion-conscious women. After realizing the popularity of such lifestyle brands in Japan, Urban Outfitters decided to introduce their Free People brand on a full scale. With the help of World's diverse channels and resources, which include directly operated stores and an online store, Free People was able to accelerate

⁵ Onward Holdings Official website: <http://www.onward-hd.co.jp/project/license.html>

⁶ Wacoal Holdings Corporate Profile, 2014.

growth.⁷

Tommy Bahama

In 2013, A U.S. luxurious island lifestyle apparel brand targeting men and women in their 30s and 40s, Tommy Bahama, opened its first overseas flagship store that included a bar and a restaurant in Ginza, Tokyo. They already knew that their brand concept would be widely accepted in Japan since they had many Japanese tourists visiting Hawaii and the West Coast, and purchasing Tommy Bahama products.

Tommy Bahama collaborated with NAI ChaneyBrooks, a Hawaii based commercial real estate agency that offers consultancy services, to explore entry strategies into the Japanese market, and to search and develop a licensing partner. In July 2012, Tommy Bahama established a subsidiary in Japan with the help of JETRO.⁸ Currently, Tommy Bahama successfully operates 3 stores: one in Ginza, one in in Japan's major shopping mall "LaLaport" in Yokohama, and one in an outlet facility in the Chiba prefecture.⁹

The Changing Japanese Mindset

In the 1970s, Japanese consumers started to become obsessed with luxury goods. At the time, Japanese consumers widely believed that European products were much more high quality and durable than the ones in Japan. With this belief evolving into social and emotional attachment to luxury brands, owning a luxurious European brand item became a symbol of economic success and social acceptance. The huge luxury goods market in Japan was not only comprised by the upper-class consumers but also by the middle-class consumers. The middle class consumers in Japan saved money on other expenses just so that they could buy designer apparel and handbags. Therefore, the luxury goods market boomed in the 1980s as well as 1990s.

However, Japan's luxury goods market started to decline in 2006, and fell sharply in 2008 due to the global financial crisis in 2007-08 bringing Japan to the economic recession period. The economic crisis has not only reduced consumer spending but also changed Japan's consumer attitude and behavior.

Today, the majority of consumers that used to be obsessed with luxury brands have shifted towards more affordable brands with style. As a result, fast fashion retailers have been very successful in Japan. Along with the shift away from the expensive luxury brands, Japanese women became much more confident about how they dress and are no longer obsessed with proving their status through expensive brands. In fact, Japanese consumers have begun to mix the expensive with the cheap and to shop in a broader range of channels.

This change in Japanese consumer attitude and behavior is to be long-lasting. Therefore, it is highly unlikely that the Japan's mindset will go back to the luxury brand obsession any time soon.¹⁰

⁷ World Official website, News Release: "World Announces Exclusive Distribution Agreement for "Free People" in Japan Women's Casual Lifestyle Brand of Urban Outfitters Inc. (U.S.A.) Full-Scale Launch Scheduled for 2013 Spring/Summer Product Lines".

⁸ JETRO Retail Success Stories, "Tommy Bahama", 2013.

⁹ Tommy Bahama Japan website; http://www.tommybahama.jp/stores_restaurants/

¹⁰ Brian S. Salsberg, "Japan's Luxury Shoppers Move on", McKinsey&Company, August, 2009.

Major Japanese Players

Casual Brands

Japanese retailers such as Fast Retailing Co Ltd and Shimamura Co Ltd have a strong foothold in the local apparel market, due to better understanding of local tastes. They epitomize the domestic casual apparel market with their products.

UNIQLO

UNIQLO Japan, a subsidiary of Fast Retailing Co.,Ltd. is the nation's largest apparel retail chain that specializes in in-house designed casual clothing for men and women of all ages. UNIQLO operates 853 stores under the name of "UNIQLO" throughout Japan. UNIQLO has 6.5% of Japan's apparel market share generating annual net sales of over 715.6 billion yen/\$6 billion (August, 2014). UNIQLO differentiates itself by providing unique and high-quality clothing for a reasonable price.

UNIQLO's competitive advantage comes from its business model, referred to as the SPA model, which encompasses all stages of business from design and production to final sale. This allows UNIQLO to make quick adjustment to production reflecting the latest trends, and minimizes operational costs. UNIQLO was the first company in Japan to establish an SPA model. UNIQLO's strategy has been and will be to continue developing products of high quality and to become Japan's top brand by expanding in urban market. UNIQLO is currently focusing on urban areas to boost their sales with their large scale store models.¹¹

Other than UNIQLO Japan, Fast Retailing operates through two other segments which are UNIQLO international, and other global brands. UNIQLO has 446 international stores that have brought 30% of UNIQLO's total sales. Expansion in the Asian region has brought significant growth to the company and now, their next focus is to expand stores in the United States. In fact, UNIQLO plans to open 100 stores in the U.S. over the next few years.

Shimamura

Shimamura is also one of the major Japanese domestic casual apparel players. Shimamura targets women between 20 and 50 years old, and large families. Shimamura operates 1,321 stores throughout Japan under the name "Fashion Center Shimamura" and sells basic and trendy clothes at a very low price. Shimamura generated annual revenue totaled 509.1 billion yen in 2014.

While UNIQLO adopts small variety mass production, Shimamura adopts large variety low-volume production. Unlike UNIQLO's SPA model, Shimamura purchases apparel products from other manufactures. Shimamura's standardization of their shops allows them to reduce costs and sell their products at a low price. Shimamura has been operating its shops mainly in the suburban area but they have recently started expanding into the urban area such as Tokyo and Osaka.¹²

¹¹ Fast Retailing official website; <http://www.fastretailing.com/eng/group/strategy/uniqlobusiness.html>

¹² Shimamura Group official website; <http://www.shimamura.gr.jp/company/business/03/>

Top 5 Japanese Apparel Companies(2013/2014)

Ranking	Company	Sales ¥billion
1	First Retailing	11,430
2	Shimamura	5,018
3	World	3,173
4	Onward Holdings	2,790
5	Aoyama Trading	2,221

source: gyokai-search.com

Major U.S. Players and Others

Forever 21

Forever 21, currently operating 19 stores in Japan, opened its 1st store in Harajuku in 2009 that recorded more than one million customer transactions within 2 months after opening.¹³ Since then Forever 21 has been very successful in the Japanese market. Despite intense competition with other popular fast-fashion firms such as H&M and Uniqlo, Forever 21 has been able to maintain its popularity in Japan due to its affordability, trendy designs, rapid renewal, and variations of clothes. In fact, in 2010, Matsuzakaya department store located in Tokyo's upscale Ginza district pushed away Gucci and replaced the space with Forever 21 to increase customer traffic.¹⁴ In other words, Forever 21 has largely benefited from the changing minds of Japanese consumer from luxury brands to fast fashion. Forever 21 distinguishes itself from other fast fashion brands in its store interior by adopting a certain theme for each floor and creating an atmosphere for different clothing styles. In addition, Forever 21 has also been successful in tuning its brand to local tastes.

ZARA

Zara Japan was established in 1997 as a joint venture of Inditex Group (Europe's largest apparel company) and Japan's BIGI Group. In 2005, Zara Japan became a wholly-owned subsidiary, and started to expand stores across Japan. After ten years of experience in Japan's apparel business, Zara gained a very good understanding of the demands of Japanese customers. As a result, their Japanese stores appeal to a wide range of age groups and professions, offering a high level of customer service and quality products in the latest styles at attractive prices. Currently, there are 95 Zara stores in Japan, and they are planning to open 4 more stores by the end of 2015. Another Inditex brand called Bershka also operates in 21 stores in Japan.

Even though many Japanese consumers became more price-conscious, Zara which has a slightly higher product pricing than fast-fashion players, was able to successfully address the right market by targeting working class women and older women who had enough money to spend on clothing. Zara's popularity also comes with their efficient supply chain management that keeps up with the new trends. Inditex highly values its business in Japan, and views the market as vital

¹³ Lydia Dishman, Cbs News "Forever 21 Expands: Big in Japan and the Plus-Size Market", January, 2010.

¹⁴ Yuri Kageyama, Huffington Post "Japan Embraces Forever 21, Fast Fashion", June 2010.

in its Asia-Pacific operations.¹⁵

Market Outlook

The fast-fashion industry is expanding aggressively across Asia with average expenditure on clothing set to rise by almost 10% per year.¹⁶ The appetite for affordable and quick trendy brands is expected to continue. Therefore, fast fashion retail brands such as H&M, Gap, Zara and Uniqlo are planning to open more stores in Japan.

Despite the dominance of China, Japan will remain a cornerstone of the global fashion industry. There are number of internationally recognized designers such as Miyake, Kawakubo, and Yamamoto, and the Japanese street fashion continues to influence apparel and footwear trends in many other countries.

According to PwC, one niche market that is expected to grow in Japan will be apparel products for single working women in their 20s. Such women usually have high disposable incomes since many still live with their parents. As a result, they are able to purchase luxury items along with fast-fashion items.¹⁷

**Table 5: Japan apparel retail industry value forecast:
\$ billion, 2014–19**

Year	\$ billion	¥ billion	% Growth
2014	95.8	10,145.1	0.6%
2015	95.8	10,138.6	-0.1%
2016	97.4	10,306.1	1.7%
2017	99.1	10,489.5	1.8%
2018	101.1	10,702.7	2.0%
2019	103.7	10,980.8	2.6%
CAGR: 2014–19			1.6%

source: MarketLine

In summary

Despite the slow growth and the less generous consumer spending, the Japanese apparel market still remains very attractive. Japan's large and rich consumer market, increasing female workforce, hunger for catching up with the latest fashion trends, and high level of disposable income can bring many opportunities for U.S. firms interested in entering Japan's apparel market. While the market may be appealing, competition is high and the market is saturated. Therefore, it

¹⁵ JETRO, Investing in Japan, report: "Attractive Sectors: Retail", April 2009.

¹⁶ PwC, "2015-16 Outlook for the Retail and Consumer Products Sector in Asia".

¹⁷ Ibid.

is important for U.S. firms to understand the market characteristics as much as possible prior to making decisions about entering the market.

How the Commercial Service can help

The Commercial Service can assist you in entering the Japanese Market. Apparel Specialist Hirono Taki, based in Osaka, is available to provide guidance and counseling. For those interested in finding the right local partner, they may wish to consider our Gold Key matchmaking service that connects companies to potential partner candidates for a minimal fee.

For those already in Japan, the Embassy can support company events such as media events, new product launches or even stakeholder conferences. Please reach out for additional details.

We also recommend you consider visiting Japan during one of the many industry trade shows to get a better sense of the market.

Tokyo Fashion Wear Expo (Fall)

November 2015

<http://www.apparel-expo.jp/en/autumn/>

Fashion World Tokyo

April 2016

<http://www.fashion-tokyo.jp/en/>

Tokyo Fashion Wear Expo (Spring)

April 2016

<http://www.apparel-expo.jp/en/spring/>

Tokyo Girls Collection (Fall/Spring)

<http://girlswalker.com/tgc/15aw/>

For more information, please contact Apparel Specialist Hirono Taki at Hirono.Taki@trade.gov

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